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SENSITIVE

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SUBJECT: AZERBAIJAN: AMBASSADOR'S ECONOMIC VISIT TO
ISMAILLY AND SHEKI REGIONS

SENSITIVE BUT UNCLASSIFIED - NOT FOR INTERNET DISTRIBUTION -
HANDLE ACCORDINGLY.

¶1. (SBU) SUMMARY: Ambassador Harnish traveled to Ismailly and Sheki March 9 and 10 to open a Regional Information Center and a renovated pre-school and boarding school funded by the U.S. During the trip, the Ambassador met with local government officials and discussed economic and political development and the local governments' response to the avian influenza threat. Local officials in both cities are actively engaged in AI surveillance and have created commissions to monitor the threat. The Ambassador also visited the U.S.-funded Junior Achievement economic curriculum at a Sheki high school that is laying the groundwork for future business leaders. Both regions are rural and poor and their agricultural sectors require significant investment. Several local businessmen told the Ambassador that they are looking to purchase U.S. equipment. While the investment and business climate is positive, local business leaders bemoaned the lack of coordination and means to exchange investment plans and ideas. END SUMMARY.

¶2. (SBU) On March 9 and 10, Ambassador Harnish traveled to the cities of Ismailly and Sheki in northwestern Azerbaijan to open a Regional Information Center and participate in the opening ceremony of a pre-school and boarding school funded by the EUCOM Humanitarian Assistance Program. During the trip, the Ambassador met with the local governors (ExCom), local NGOs, visited a local high school Junior Achievement program and hosted a lunch with Sheki entrepreneurs and business leaders. Most of the interlocutors during the trip stressed the need for assistance to continue economic and infrastructure development. In Ismailly, the Ambassador met two Peace Corps volunteers at the RIC event and in Sheki he hosted dinner for the five local Peace Corps volunteers. Ismailly is a rural city of less than 25,000 inhabitants and Sheki is an agricultural city of 65,000 that has a growing tourism sector.

Ismailly ExCom

¶3. (SBU) During a brief courtesy call, Rovshan Sadikhov, Ismailly ExCom, told the Ambassador that he is looking to develop and expand the economic base of his primarily agricultural region. Sadikhov said that in 2006 the GOAJ would begin work on the Baku-Gabala road, which should increase the region's export markets. Sadikhov said that other than farming, a privately owned carpet factory and vineyard provided the only employment opportunities to the local population. He noted that the majority of private investment in Ismailly region came from investors from Baku.

Sadikhov noted that Ismailly had more than 150 historic sites that could provide the base for a small tourism industry to grow. Sadikhov knew the exact number of Peace Corps volunteers in Ismailly, even naming one former English teacher. After the meeting, both the Ambassador and the ExCom walked to the central library to open the U.S.-financed Regional Library Information Center.

¶ 14. (SBU) Sadikhov raised the subject of democracy with the Ambassador and said that in Ismailly there was an open dialogue with the population. He noted that in the past 10 months he has hosted more than 15 meetings with local citizens. He claimed that the November 2005 Parliamentary elections in Ismailly were democratic. The Ambassador responded that local authorities should allow civil society and political debate to grow. He noted that the ExComs should encourage dialogue and the improvement of society and should play a key role in supporting civic activism.

¶ 15. (SBU) Turning to avian influenza, Sadikhov told the Ambassador that he had formed a commission to monitor the situation and had sent samples to Baku. He added that 90 to 95 percent of the local birds or poultry were "kept safe." Although he did not know the total amount of commercial chicken operations in his region, Sadikhov said that one broiler with 80,000 chickens kept its poultry indoors.

Sheki ExCom

¶ 16. (SBU) Upon arrival in Sheki, the Ambassador called upon ExCom Nazim Ibragimov and discussed the economic development of the region. Ibragimov began by noting that Sheki has a

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long history of trading and business and its citizens "enjoyed making money." Ibragimov said that investment in Sheki was low and, according to him, the region needed more than USD 100 million for economic development. He stated that his first goal was to create a positive investment climate. Ibragimov inquired about available U.S. agricultural assistance programs and said that local companies wanted to purchase U.S. equipment.

¶ 17. (SBU) Ibragimov told the Ambassador that Sheki has six local newspapers and that the ExCom office does not inhibit freedom of the press. He added that democratic development requires peace and cooperation. Ibragimov noted that he maintained a friendly relationship with all citizens in Sheki and that his door was always open. He was aware of the number of Peace Corps volunteers and added that Sheki would accept more volunteers.

¶ 18. (SBU) Regarding avian influenza, Ibragimov said that Sheki had established a commission to monitor the situation and convey information to the local population. He stated that he received updates three times a day from local officials. According to Ibragimov, there have been no die-offs of birds in the Sheki region. He noted that there were only a few chicken broilers operating in the region. The Ambassador raised the idea of providing financial compensation to farmers affected by AI. Ibragimov agreed that such a compensation plan was a good idea and that a Sheki parliamentarian had also raised it during a recent visit.

¶ 19. (SBU) Ibragimov told the Ambassador that there were many commercial opportunities for U.S. companies in Sheki. He also noted that many local companies had recently purchased Chinese, Turkish and German manufactured equipment. Ibragimov noted that U.S.-made equipment was known for its high quality and thus highly sought after. The Ambassador mentioned to Ibragimov that there were several different U.S. programs, including PRAGMA and EXIM financing, available to assist local businessmen purchase U.S. equipment. The Ambassador also suggested that the American Chamber of Commerce might be able to visit Sheki (as it did in Ganja) in

order to identify any agriculture and commercial opportunities. Ibragimov welcomed any visits from the AMCHAM and other U.S. business groups.

Junior Achievement & Project Harmony

¶10. (SBU) Ambassador Harnish visited Sheki High School number 18 to review a USAID-sponsored Junior Achievement economic classroom. The Ambassador gave a brief lecture on "labor productivity" and answered several tough economic questions. Project Harmony and Junior Achievement Azerbaijan, a local NGO, have been operating this program since March 2003. Junior Achievement Azerbaijan has forged a strong relationship with the Ministry of Education, which has replaced its own economics curriculum with Junior Achievement Azerbaijan's Applied Economics curriculum in affiliated schools. Junior Achievement Azerbaijan has introduced an economics curriculum for 10th and 11th grade students with the purpose of educating young people in the principles of a market economy and the basics of economic theory that will help them develop as future business leaders and entrepreneurs. Junior Achievement Azerbaijan has provided more than 22,000 10th and 11th grade students from SEE schools with textbooks (translated into Azerbaijani and Russian) and more than 200 educators with teaching materials.

In addition, participating school students practice applied Economics through taking part in Management and Economics Simulation Exercise and receive training on computer usage and Internet collaboration.

Local Businessmen Discuss Business Climate

¶11. (SBU) Before departing Sheki, the Ambassador hosted a lunch with five local businessmen and entrepreneurs. The owners of the local silk factory, brick factory, canning operation, agricultural leasing company and juice factory told the Ambassador that Sheki businesses need U.S. equipment, financing and economic assistance. The Ambassador provided a short briefing on U.S. agricultural assistance programs, including PRAGMA. All commended the knowledge of local Sheki employees but lamented the region's overall lack of capacity and technology. Three of the businesses are

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relatively new, having started in late 2005 with some assistance from the GOAJ. Some of the business owners had previous experience during the Soviet Union period and developed their current businesses as a direct result of previous business contacts and know-how.

¶12. (SBU) Most of the businesses export their goods to Baku. The local brick maker told Ambassador Harnish that current brick capacity was 30,000 bricks a day, with the majority of them being transported to Baku. The brick maker noted that in order to expand his business he need to upgrade his equipment and make more than USD 1 million in investments. With recent upgrades, the brick factory should soon increase production to 50,000 bricks per day. Several of the businessmen told the Ambassador that they had recently purchased large equipment from Turkey, Germany and Italy. The brick factory owner said that he wanted to purchase cement and brick manufacturing equipment from the U.S.

¶13. (SBU) The Agroleasing business representative told the Ambassador that his operation was providing interest free loans to purchase fertilizer and below market lending rates for large farm equipment, such as tractors. Agroleasing is connected to the Ministry of Economic Development and is charged with developing agricultural activities in the regions. In addition to the services provided by the Agroleasing business, the juice factory director told the Ambassador that his firm had received a USD 150,000 loan from the GOAJ at a favorable interest rate. The juice factory, using locally procured berries, is also looking to expand

production capacity. The juice factory owner also noted that it is selling its "juice-box" products to the Ministry of Defense.

¶14. (SBU) The Sheki businessmen told the Ambassador that there was no local Sheki business or chamber of commerce. In addition, they noted that the business leaders rarely gathered together to exchange business ideas or contacts. While the business climate in Sheki is good, there is a need for better equipment, technology and training that could assist the region's development. The role of the GOAJ in providing low interest loans to farmers and businessmen in the regions has caused some of the International Financial Institutions to question the government subsidies. The IFIs are concerned that the funds are being given to politically-connected businesses rather than to sectors and industries that really have a need.

HARNISH